BROITMAN DECLARATION
EXHIBIT 10

Aerotel *et al.* v. AT&T Inc. *et al.*
SDNY 07-Civ-3217 (RJH)

FORM 10-Q

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2006

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-8610

AT&T INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

175 E. Houston, San Antonio, Texas 78205
Telephone Number: (210) 821-4105

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b2 of the Exchange Act. Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

At October 31, 2006, common shares outstanding were 3,842,902,194.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AT&T INC.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

(Unaudited)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Operating Revenues				
Voice	$ 8,464	$ 5,743	$ 25,725	$ 17,355
Data	4,546	2,514	13,465	7,343
Directory	906	917	2,716	2,723
Other	1,722	1,130	5,258	3,434
Total operating revenues	15,638	10,304	47,164	30,855
Operating Expenses				
Cost of sales (exclusive of depreciation and amortization shown separately below)	6,664	4,364	20,641	13,153
Selling, general and administrative	3,620	2,175	11,396	7,229
Depreciation and amortization	2,437	1,803	7,415	5,437
Total operating expenses	12,721	8,342	39,452	25,819
Operating Income	2,917	1,962	7,712	5,036
Other Income (Expense)				
Interest expense	(442)	(349)	(1,378)	(1,051)
Interest income	98	82	278	291
Equity in net income of affiliates	649	219	1,438	342
Other income (expense) – net	11	(70)	37	11
Total other income (expense)	316	(118)	375	(407)
Income Before Income Taxes	3,233	1,844	8,087	4,629
Income taxes	1,068	598	2,669	1,498
Net Income	$ 2,165	$ 1,246	$ 5,418	$ 3,131
Earnings Per Common Share:				
Net Income	$ 0.56	$ 0.38	$ 1.40	$ 0.95
Earnings Per Common Share - Assuming Dilution:				
Net Income	$ 0.56	$ 0.38	$ 1.39	$ 0.95
Weighted Average Number of Common Shares Outstanding – Basic (in millions)	3,873	3,296	3,880	3,300
Dividends Declared Per Common Share	$ 0.3325	$ 0.3225	$ 0.9975	$ 0.9675

See Notes to Consolidated Financial Statements.

AT&T INC.

CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	September 30, 2006	December 31, 2005
Assets	(Unaudited)	
Current Assets		
Cash and cash equivalents	$ 1,251	$ 1,224
Accounts receivable – net of allowances for uncollectibles of $936 and $1,176	8,668	9,351
Prepaid expenses	1,038	1,029
Deferred income taxes	1,598	2,011
Other current assets	957	1,039
Total current assets	13,512	14,654
Property, plant and equipment	152,573	149,238
Less: accumulated depreciation and amortization	94,922	90,511
Property, Plant and Equipment – Net	57,651	58,727
Goodwill	13,385	14,055
Intangible Assets – Net	7,728	8,503
Investments in Equity Affiliates	2,222	2,031
Investments in and Advances to Cingular Wireless	33,029	31,404
Other Assets	16,365	16,258
Total Assets	$ 143,892	$ 145,632
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	$ 4,713	$ 4,455
Accounts payable and accrued liabilities	14,789	17,088
Accrued taxes	3,122	2,586
Dividends payable	1,281	1,289
Total current liabilities	23,905	25,418
Long-Term Debt	26,799	26,115
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	14,368	15,713
Postemployment benefit obligation	18,150	18,133
Unamortized investment tax credits	188	209
Other noncurrent liabilities	5,081	5,354
Total deferred credits and other noncurrent liabilities	37,787	39,409
Stockholders' Equity		
Common shares issued ($1 par value)	4,065	4,065
Capital in excess of par value	27,116	27,499
Retained earnings	30,653	29,106
Treasury shares (at cost)	(5,867)	(5,406)
Additional minimum pension liability adjustment	(218)	(218)
Accumulated other comprehensive income	(348)	(356)
Total stockholders' equity	55,401	54,690
Total Liabilities and Stockholders' Equity	$ 143,892	$ 145,632

See Notes to Consolidated Financial Statements.

AT&T INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in millions, increase (decrease) in cash and cash equivalents

(Unaudited)

	Nine months ended September 30, 2006	2005
Operating Activities		
Net income	$ **5,418**	$ 3,131
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**7,415**	5,437
Undistributed earnings from investments in equity affiliates	**(1,359)**	(285)
Provision for uncollectible accounts	**450**	561
Amortization of investment tax credits	**(21)**	(17)
Deferred income tax expense (benefit)	**(269)**	(315)
Net gain on sales of investments	**(10)**	(104)
Changes in operating assets and liabilities:		
Accounts receivable	**249**	(39)
Other current assets	**42**	(249)
Accounts payable and accrued liabilities	**(1,819)**	(242)
Stock-based compensation tax benefit	**(10)**	(3)
Other – net	**507**	508
Total adjustments	**5,175**	5,252
Net Cash Provided by Operating Activities	**10,593**	8,383
Investing Activities		
Construction and capital expenditures	**(6,158)**	(3,743)
Receipts from (investments in) affiliates – net	**(633)**	2,603
Dispositions	**72**	126
Acquisitions	**(115)**	(169)
Maturities of held-to-maturity securities	**3**	98
Proceeds from note repayment	**-**	37
Other	**5**	-
Net Cash Used in Investing Activities	**(6,826)**	(1,048)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	**2,336**	(1,656)
Repayment of other short-term borrowings	**(3)**	-
Issuance of long-term debt	**1,491**	-
Repayment of long-term debt	**(2,882)**	(2,123)
Purchase of treasury shares	**(1,359)**	(742)
Issuance of treasury shares	**463**	362
Dividends paid	**(3,873)**	(3,196)
Stock-based compensation tax benefit	**10**	3
Other	**77**	-
Net Cash Used in Financing Activities	**(3,740)**	(7,352)
Net increase (decrease) in cash and cash equivalents from continuing operations	**27**	(17)
Net Cash Used in Operating Activities from Discontinued Operations	**-**	(310)
Net increase (decrease) in cash and cash equivalents	**27**	(327)
Cash and cash equivalents beginning of year	**1,224**	760
Cash and Cash Equivalents End of Period	$ **1,251**	$ 433
Cash paid during the nine months ended September 30 for:		
Interest	$ **1,503**	$ 1,198
Income taxes, net of refunds	$ **2,249**	$ 1,535

See Notes to Consolidated Financial Statements.

AT&T INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Dollars and shares in millions, except per share amounts
(Unaudited)

	Nine months ended September 30, 2006	
	Shares	**Amount**
Common Stock		
Balance at beginning of year	4,065	$ 4,065
Balance at end of period	4,065	$ 4,065
Capital in Excess of Par Value		
Balance at beginning of year		$ 27,499
Issuance of shares		(302)
Stock based compensation		(81)
Balance at end of period		$ 27,116
Retained Earnings		
Balance at beginning of year		$ 29,106
Net income ($1.39 per diluted share)		5,418
Dividends to stockholders ($1.00 per share)		(3,865)
Other		(6)
Balance at end of period		$ 30,653
Treasury Shares		
Balance at beginning of year	(188)	$ (5,406)
Purchase of shares	(45)	(1,359)
Issuance of shares	21	898
Balance at end of period	(212)	$ (5,867)
Additional Minimum Pension Liability Adjustment		
Balance at beginning of year		$ (218)
Balance at end of period		$ (218)
Accumulated Other Comprehensive Income, net of tax		
Balance at beginning of year		$ (356)
Other comprehensive income (loss) (see Note 3)		8
Balance at end of period		$ (348)

See Notes to Consolidated Financial Statements.

AT&T INC.
SEPTEMBER 30, 2006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Dollars in millions except per share amounts

NOTE 1. PREPARATION OF INTERIM FINANCIAL STATEMENTS

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) that permit reduced disclosure for interim periods. We believe that these consolidated financial statements include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results for the interim periods shown. The results for the interim periods are not necessarily indicative of results for the full year. You should read this document in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2005.

The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally providing wireline and wireless telecommunications services and equipment as well as directory advertising and publishing services.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures, including Cingular Wireless (Cingular), and less than majority-owned subsidiaries where we have significant influence are accounted for under the equity method. We account for our 60% economic interest in Cingular under the equity method since we share control equally (i.e., 50/50) with our 40% economic partner in the joint venture. We have equal voting rights and representation on the Board of Directors that controls Cingular. Earnings from certain foreign equity investments accounted for using the equity method are included for periods ended within up to three months of the date of our Consolidated Statements of Income.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates.

We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation. As a result of our November 2005 acquisition of AT&T Corp. (ATTC), in 2006, we revised our segment reporting (see Note 5). In addition, we revised the product categories reported in operating revenue as follows: long-distance voice is now reported in voice revenue; the majority of customer premises equipment and integration services revenue, previously reported as voice and data revenue are now reported in other revenue; and directory revenues now reflect our traditional directory segment revenues. Additionally, in assessing fair value of contracts in conjunction with the acquisition of ATTC (see Note 2) we reduced revenues and operating expenses by $18 in the post-acquisition 2005 period and by $79 for the first six months of 2006 to reflect settlements with foreign carriers for transport/carrying calls at the contract incremental/cash settlement rates rather than contract swap rates. Operating Income remained unchanged.

FIN 48 In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), an interpretation of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact FIN 48 will have on our financial position and results of operations.

EITF 06-3 In June 2006, the Emerging Issues Task Force (EITF), a task force established to assist the FASB on significant emerging accounting issues, ratified the consensus on EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" (EITF 06-3). EITF 06-3 provides that taxes imposed by a governmental authority on a revenue producing transaction between a seller and a customer should be shown in the income statement on either a gross or a net basis, based on the entity's accounting policy, which should be disclosed pursuant to Accounting Principles Board Opinion

No. 22, "Disclosure of Accounting Policies." Amounts that are allowed to be charged to customers as an offset to taxes owed by a company are not considered taxes collected and remitted. If such taxes are significant, and are presented on a gross basis, the amounts of those taxes should be disclosed. EITF 06-3 will be effective for interim and annual reporting periods beginning after December 15, 2006. We are currently evaluating the impact EITF 06-3 will have, but do not expect a material impact on our financial position and results of operations.

FAS 157 In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurement. FAS 157 does not require any new fair value measurements and we do not expect the application of this standard to change our current practice. FAS 157 requires prospective application for fiscal years ending after November 15, 2007.

FAS 158 In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158), an amendment of Statement of Financial Accounting Standard No. 87 "Employers' Accounting for Pensions" (FAS 87), Statement of Financial Accounting Standard No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," Statement of Financial Accounting Standard No. 106 "Employers' Account for Postretirement Benefits Other Than Pensions" (FAS 106) and Statement of Financial Accounting Standard No. 132(R) "Employers' Disclosures about Pensions and Other Postretirement Benefits." FAS 158 will require us to recognize the funded status of defined benefit pension and postretirement plans as an asset or liability in our statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This standard will have no effect on our expense or benefit recognition, nor will it affect the funding requirements imposed under the Employee Retirement Income Security Act of 1974, as amended (ERISA). FAS 158 requires prospective application for fiscal years ending after December 15, 2006. Had FAS 158 been in effect at December 31, 2005, we would have reduced our pension assets approximately $8,700 and increased our postretirement benefit obligation approximately $7,300. The after tax reduction to our stockholders' equity would have been approximately $10,000. We will adopt FAS 158 in the fourth quarter of 2006.

Employee Separations In accordance with Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," we establish obligations for probable termination benefits provided to former or inactive employees after employment but before retirement. These benefits include severance payments, workers' compensation, disability, medical continuation coverage and other benefits. At September 30, 2006, for employees not affected by the change-in-control provisions of the ATTC benefit plans, we had severance accruals of $276, of which $241 was established as merger-related severance accruals. In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" (FAS 141), severance accruals recorded for ATTC employees were included in the preliminary purchase price allocation (see Note 2).

NOTE 2. ACQUISITIONS

AT&T Corp. In November 2005, we acquired ATTC in a transaction accounted for under FAS 141, issuing 632 million shares. ATTC was one of the nation's largest business service communications providers, offering a variety of global communications services, including large domestic and multinational businesses, small and medium-sized businesses and government agencies, and operated one of the largest telecommunications networks in the U.S. ATTC also provided domestic and international long-distance and usage-based-communications services to consumer customers. ATTC is now a wholly owned subsidiary of AT&T and the results of ATTC's operations have been included in our consolidated financial statements after the November 18, 2005 acquisition date.

Under the purchase method of accounting, the transaction was valued, for accounting purposes, at $15,517 and the assets and liabilities of ATTC were recorded at their respective fair values as of the date of the acquisition. At the time of the acquisition, we obtained preliminary third-party valuations of property, plant and equipment,

AT&T INC.
SEPTEMBER 30, 2006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

intangible assets (including the AT&T trade name), debt and certain other assets and liabilities. Because of the proximity of this transaction to year-end, the values of certain assets and liabilities were based on preliminary valuations and were subject to adjustment as additional information was obtained. Such additional information includes, but is not limited to: valuations and physical counts of property, plant and equipment, valuation of investments and the involuntary termination of employees. As of September 30, 2006, we have obtained additional information on many of the outstanding issues relating to the preliminary valuation, resulting in the adjustment of certain assets and liabilities, offset by a change to goodwill. We have 12 months from the closing of the acquisition to finalize our valuations; any remaining adjustments will be reflected in the fourth quarter.

The following table summarizes the preliminary estimated fair values of the ATTC assets acquired and liabilities assumed and related deferred income taxes as of the acquisition date and adjustments made thereto during the first nine months of 2006.

	Purchase Price Allocation		
	As of 12/31/05	Adjustments	As of 9/30/06
Assets acquired			
Current assets	$ 6,295	$ 16	$ 6,311
Property, plant and equipment	10,921	(662)	10,259
Intangible assets not subject to amortization:			
Trade name	4,900	-	4,900
Licenses	40	-	40
Intangible assets subject to amortization:			
Customer lists and relationships	3,050	-	3,050
Patents	150	-	150
Brand licensing agreements	70	-	70
Investments in unconsolidated subsidiaries	160	(90)	70
Other assets	4,247	165	4,412
Goodwill	12,343	(691)	11,652
Total assets acquired	42,176	(1,262)	40,914
Liabilities assumed			
Current liabilities, excluding current portion of long-term debt	6,740	63	6,803
Long-term debt	8,293	-	8,293
Deferred income taxes	531	(720)	(189)
Postemployment benefit obligation	8,807	(468)	8,339
Other noncurrent liabilities	2,288	(137)	2,151
Total liabilities assumed	26,659	(1,262)	25,397
Net assets acquired	$ 15,517	$ -	$ 15,517

Adjustments were primarily related to property, plant and equipment, head-count assumptions associated with payments for involuntary employee separations, pension asset valuations and the adjustment for certain tax items. Reductions in the value of property, plant and equipment primarily reflects the reduction of estimated real estate values of property in use as well as a more comprehensive look at our fixed asset portfolio. Included in our third-quarter 2006 operating results is a $71 reduction of depreciation expense related to the revaluation of these assets. The timing lag in valuation of certain pension assets (primarily real estate related) resulted in a $20 reduction of operating expense in the third quarter. In addition to the deferred tax impacts associated with valuation adjustments, a net reduction in deferred taxes was recorded as a result of modifications to various pre-merger tax estimates and the resolution of an ATTC Internal Revenue Service audit (an adjustment of $385 for the years 1997-2001). In total we recorded an increase of $97 in operating income, $70 of which related to periods prior to the third quarter of 2006.

AT&T INC.
SEPTEMBER 30, 2006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

The completion of the final valuation of the assets and liabilities may result in further adjustments to goodwill. Additionally, as ATTC stock options that were converted at the time of the merger are exercised, the tax effect on those options may further reduce goodwill. As of September 30, 2006, we had recorded $11 in related reductions.

ATTC maintained change-in-control provisions with its employees that required enhanced severance and benefit payments be paid to employees of ATTC if a change-in-control occurred. Included in the liabilities assumed at acquisition, was $1,543 accrued for such enhanced severance and benefits. As part of the opening balance sheet adjustments, a revised number of expected employee separations that will result in payments resulted in a decline in the change-in-control severance and benefit accrual of $477. Following is a summary of the accrual recorded at December 31, 2005, cash payments made during the first nine months of 2006 and the purchase accounting adjustments thereto. We will continue to evaluate this accrual through the end of the allocation period.

	Balance at	Cash Payments for the Quarter Ended			Adjustments	Balance at
	12/31/05	3/31/06	6/30/06	9/30/06		9/30/06
Paid out of:						
Company funds	$ 870	$ (46)	$ (59)	$ (86)	$ (97)	$ 582
Pension and Postemployment benefit plans	673	(5)	(27)	(18)	(380)	243
Total	$ 1,543	$ (51)	$ (86)	$ (104)	$ (477)	$ 825

The following unaudited pro forma consolidated results of operations assume that the acquisition of ATTC was completed as of January 1, 2005.

	For the Quarter Ended				For the Year Ended
	3/31/05	6/30/05	9/30/05	12/31/05	2005
Revenues	$ 16,619	$ 16,554	$ 16,414	$ 16,202	$ 65,789
Net Income	1,319	1,257	1,729	1,862	6,167

As part of the process of coordinating benefits, we changed our management vacation pay policy for legacy SBC employees so vacation is earned ratably throughout the year rather than at the end of the preceding year. As a result, we recognized a decrease in operating expenses of $246 in the third quarter of 2006. We anticipate the expense reduction for the fourth quarter of 2006 to be approximately $80.

AT&T INC.
SEPTEMBER 30, 2006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

NOTE 6. TRANSACTIONS WITH CINGULAR

We and BellSouth, the two owners of Cingular, have each made a subordinated loan to Cingular (shareholder loans). Our shareholder loan to Cingular totaled $4,108 at September 30, 2006 and December 31, 2005. This loan bears interest at an annual rate of 6.0% and matures in June 2008. We earned interest income on this loan of $62 in the third quarter and $184 for the first nine months of 2006 and $74 in the third quarter and $248 for the first nine months of 2005.

We and BellSouth agreed to finance Cingular's capital and operating cash requirements to the extent Cingular requires funding above the level provided by operations. We and BellSouth also entered into a revolving credit agreement with Cingular to provide short-term financing for operations on a pro rata basis at an interest rate of LIBOR (London Interbank Offered Rate) plus 0.05%, which expires July 31, 2007. This agreement provides for the repayment of our and BellSouth's shareholder loans made to Cingular in the event there are no outstanding amounts due under the revolving credit agreement and to the extent Cingular has excess cash, as defined by the agreement.

Under the revolving credit agreement we received net repayments from Cingular totaling $91 in the third quarter and had net advances of $624 for the first nine months of 2006. Our share of advances to Cingular under the revolving credit agreement is reflected in "Investments in and Advances to Cingular Wireless" on our Consolidated Balance Sheets and totaled $931 at September 30, 2006 and $307 at December 31, 2005.

We generated revenues of $359 in the third quarter and $1,106 for the first nine months of 2006 and $220 in the third quarter and $607 for the first nine months of 2005 for services sold to Cingular. These revenues were primarily from access and long-distance services sold to Cingular on a wholesale basis, and commissions revenue related to customers added through AT&T sales sources. The offsetting expense amounts are recorded by Cingular, and 60% of these expenses are included in our "Equity in net income of affiliates" line on our Consolidated Statements of Income when we report our 60% proportionate share of Cingular's results.

interest cost, respectively. Net supplemental retirement pension benefits cost was $27 in the third quarter and $81 for the first nine months of 2005, of which $17 and $51 was interest cost, respectively.

NOTE 8. PENDING ACQUISITION OF BELLSOUTH

On March 4, 2006, we agreed to acquire BellSouth in a transaction in which each share of BellSouth common stock will be exchanged for 1.325 shares of AT&T common stock. Based on the average closing price of AT&T shares for the two days prior to, including, and two days subsequent to the public announcement of the acquisition (March 5, 2006) of $27.32, the total transaction is valued, for purchase accounting purposes, at approximately $66,000.

We and BellSouth jointly own Cingular and the internet-based publisher YPC. In the Cingular joint venture, we hold a 60 percent economic interest and BellSouth holds a 40 percent economic interest and in the YPC joint venture we hold a 66 percent economic interest and BellSouth holds a 34 percent economic interest. For each joint venture control is shared equally (i.e., 50/50). We and BellSouth each account for the joint ventures under the equity method of accounting, recording the proportional share of Cingular's and YPC's income as equity in net income of affiliates on the respective consolidated statements of income and reporting the ownership percentage of Cingular's net assets as "Investments in and Advances to Cingular Wireless" and the ownership percentage of YPC's net assets as "Investments in Equity Affiliates" on the respective consolidated balance sheets. After the BellSouth acquisition, BellSouth, Cingular and YPC will be wholly-owned subsidiaries of AT&T.

Upon consolidation, the asset and liabilities of BellSouth and Cingular will be appraised, based on third-party valuations, for inclusion on the opening balance sheet, adjusting 100% of BellSouth's and 40% of Cingular's values. Long-lived assets such as property, plant and equipment will reflect a value of replacing the assets, which takes into account changes in technology, usage, and relative obsolescence and depreciation of the assets, sometimes referred to as a Greenfield approach. This approach often results in differences, sometimes material, from recorded book values even if, absent the acquisition, the assets would be neither increased in value nor impaired. In addition, assets and liabilities that would not normally be recorded in ordinary operations will be recorded at their acquisition values (e.g., customer relationships that were developed by the acquired company). Debt instruments and investments are valued in relation to current market conditions and other assets and liabilities are valued based on the acquiring company's estimates. After all identifiable assets and liabilities are valued, the remainder of the purchase price is recorded as goodwill. These values are subject to adjustment for one year after the close of the transaction as additional information is obtained.

The transaction has been approved by the Board of Directors and the stockholders of each company and various other regulatory authorities. In October 2006, the U.S. Department of Justice completed its review of the transaction without imposing any conditions. The acquisition remains subject to approval by the Federal Communications Commission. We expect the transaction to close in the fall of 2006.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
Dollars in millions except per share amounts

ATTC. Included in our long-term debt maturities was the fair value debt adjustment (required under purchase accounting rules) applicable to the acquisition of ATTC. All of our commercial paper borrowings are due within 90 days. The availability of bank borrowings is contingent on the level of cash held by some of our foreign subsidiaries. We continue to examine our mix of short- and long-term debt in light of interest rate trends.

During the first nine months of 2006, debt repayments totaled $2,885 and consisted of:

- $2,858 related to debt repayments with interest rates ranging from 5.75% to 9.50%.
- $27 related to scheduled principal payments on other debt and short-term borrowings.

In May 2006, we received net proceeds of $1,491 from the issuance of $1,500 of long-term debt consisting of $900 of two-year floating rate notes and $600 of 6.80%, 30-year bonds maturing in 2036.

At September 30, 2006, our debt ratio was 36.3% compared to our debt ratio of 36.6% at September 30, 2005. The decrease was primarily due to an increase in stockholders' equity by more than $15,200 compared to the first nine months of 2005 and includes our acquisition of ATTC in the fourth quarter of 2005, and debt repayments, partially offset by ATTC debt we now reflect on our balance sheet following the acquisition.

In July 2006, we replaced our three-year $6,000 credit agreement with a five-year $6,000 credit agreement with a syndicate of investment and commercial banks. The current agreement will expire in July 2011. The available credit under this agreement will increase by an additional $4,000 in the event AT&T completes its pending acquisition of BellSouth before March 6, 2007. This incremental available credit is intended to replace BellSouth's existing credit facility, which would terminate upon completion of the acquisition. We have the right to request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional $2,000 provided no event of default under the credit agreement has occurred. We also have the right to terminate, in whole or in part, amounts committed by the lenders under this agreement in excess of any outstanding advances; however, any such terminated commitments may not be reinstated. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. There is no material adverse change provision governing the drawdown of advances under this credit agreement. This agreement contains a negative pledge covenant, which requires that, if at any time we or a subsidiary pledge assets or otherwise permits a lien on its properties, advances under this agreement will be ratably secured, subject to specified exceptions. We must maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreement) financial ratio covenant of not more than three-to-one as of the last day of each fiscal quarter for the four quarters then ended. We are in compliance with all covenants under the agreement. As of November 1, 2006, we had no borrowings outstanding under this agreement.

Cingular
The upgrade, integration and expansion of the Cingular and AT&T Wireless networks and the networks acquired in a transaction with Triton PCS Holdings, Inc. will continue to require substantial amounts of capital over the next several years. As of September 30, 2006, Cingular has spent $4,851 primarily for GSM/GPRS/EDGE network upgrades with cash from operations, dispositions and, as needed, advances under the revolving credit agreement mentioned below. Cingular expects to fund its capital requirements in 2006 from existing cash balances, cash generated from operations and, if necessary, drawing under the revolving credit agreement. In 2006, Cingular expects to spend within a target range of between $7,000 and $7,500 primarily for the upgrade, integration and expansion of its networks, the installation of UMTS/HSDPA technology in a number of markets and the construction and upgrade of network facilities in California and Nevada following the sale of duplicate facilities to T-Mobile upon the termination of Cingular's GSM Facilities, LLC (GSMF) network infrastructure joint venture. Cingular participated in the recent FCC spectrum auction and made successful bids totaling approximately $1,300.

We and BellSouth agreed to finance Cingular's capital and operating cash requirements through a revolving credit agreement, to the extent Cingular requires funding above the level provided by operations. We describe the terms of this agreement in Note 6. During the first nine months of 2006, we made net advances to Cingular of $624 under the

revolving credit agreement. These amounts increased the outstanding amount of advances made to Cingular to a total of $931 at September 30, 2006 from $307 at December 31, 2005 and are reflected in "Investments in and Advances to Cingular Wireless" on our Consolidated Balance Sheets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

At September 30, 2006, we had interest rate swaps with a notional value of $3,250 and a fair value liability of $35. We had $1,000 of swaps mature in 2006 related to our repayment of the underlying security. In May 2006, we entered into an interest rate forward contract with a notional amount of $750 to partially hedge interest expense related to our debt issuance in 2006. We utilized a notional amount of $600 of this forward contract and incurred settlement gains of $4.

Item 4. Controls and Procedures

The registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the registrant is recorded, processed, summarized, accumulated and communicated to its management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosure, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The chief executive officer and chief financial officer have performed an evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of September 30, 2006. Based on that evaluation, the chief executive officer and chief financial officer concluded that the registrant's disclosure controls and procedures were effective as of September 30, 2006.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties, and actual results could differ materially. Many of the factors listed here are discussed in more detail in the "Risk Factors" section in our Annual Report on Form 10-K and updated in the "Risk Factors" section below. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- Adverse economic changes in the markets served by us or in countries in which we have significant investments.
- Changes in available technology and the effects of such changes including product substitutions and deployment costs.
- Increases in our benefit plans' costs including increases due to adverse changes in the U.S. securities markets, resulting in worse-than-assumed investment returns and discount rates, and adverse medical cost trends.
- The final outcome of Federal Communications Commission proceedings and reopenings of such proceedings and judicial review, if any, of such proceedings, including issues relating to access charges, broadband deployment and unbundled loop and transport elements.
- The final outcome of regulatory proceedings in the states in which we operate and reopenings of such proceedings, and judicial review, if any, of such proceedings, including proceedings relating to interconnection terms, access charges, universal service, UNE-Ps and resale and wholesale rates, broadband deployment including Project Lightspeed, performance measurement plans, service standards and traffic compensation.
- Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments.
- Our ability to absorb revenue losses caused by increasing competition, including offerings using alternative technologies (e.g., cable, wireless and VoIP), and our ability to maintain capital expenditures.

- The extent of competition and the resulting pressure on access line totals and wireline and wireless operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireline and wireless markets.
- The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings relating to UNE-Ps and nonregulation of comparable alternative technologies (e.g., VoIP).
- The timing, extent and cost of deployment of our Project Lightspeed initiative; the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative, and; the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.
- The outcome of pending or threatened litigation including patent claims against third parties doing business with us or Cingular.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations; and the resolution of disputes with any taxing jurisdictions.
- The impact of the wireless joint venture with BellSouth, known as Cingular, including: marketing and product-development efforts; customer acquisition and retention costs; access to additional spectrum; network upgrades; technological advancements; industry consolidation, including the acquisition of AT&T Wireless; and availability and cost of capital.
- Cingular's failure to achieve, in the amounts and within the time frame expected, the capital and expense synergies and other benefits expected from its acquisition of AT&T Wireless.
- The impact of our pending acquisition of BellSouth, including our ability to obtain FCC approval of the acquisition on the proposed terms and schedule; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the acquisition may take longer to realize than expected or may not be fully realized; and the disruption from the acquisition making it more difficult to maintain relationships with customers, employees or suppliers.
- The impact of our acquisition of ATTC, including the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the acquisition may not be fully realized or may take longer to realize than expected; disruption from the integration process making it more difficult to maintain relationships with customers, employees or suppliers; and competition and its effect on pricing, spending, third-party relationships and revenues.
- Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, to respond to competition and regulatory, legislative and technological developments.

Readers are cautioned that other factors discussed in this report, although not listed here, also could materially affect our future earnings.